

Yarra Australian Bond Fund

Net returns as at 31 August 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Yarra Australian Bond Fund	-0.29	0.26	0.69	3.84	0.22	1.84	4.66
Growth return [#]	-0.29	-0.59	-2.96	0.84	-1.69	-1.20	-0.14
Distribution return [#]	0.00	0.85	3.65	3.00	1.91	3.04	4.80
Bloomberg AusBond Composite 0+YR Index	-0.22	0.30	0.57	3.32	-0.13	1.58	4.55
Excess return [#]	-0.07	-0.05	0.13	0.52	0.35	0.26	0.11

Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account. The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

[#]Growth returns are measured by the movement in the Fund's unit price, ex-distribution. Distribution return is the proportion of the total return which is paid to unitholders by way of distribution. It does not include distribution amounts deemed as capital distributions. Excess return is the difference between the Fund's net return and its benchmark (Bloomberg AusBond Composite 0+YR Index).

*Inception date: July 2000.

Portfolio review

After fees and expenses, the Fund returned -0.29% to underperform the benchmark by 7 basis points (bps).

Further escalation of the conflict in the Middle East pushed oil prices higher, prompting renewed concerns around the inflation outlook. A series of stronger-than-expected economic data releases, together with a hawkish message delivered by Fed Chair Warsh in his speech at the Jackson Hole Economic Policy Symposium, reinforced market expectations that US policy rates may need to remain higher for longer to contain inflationary pressures. This resulted in a rise in US bond yields, which flowed through to domestic markets and contributed to higher yields locally.

The rise in bond yields was a detractor from fund performance during the month, reflecting the portfolio's duration position, which is overweight relative to the benchmark. The portfolio's curve positioning made a positive contribution to performance, however, this was more than offset by the negative contribution from the duration position.

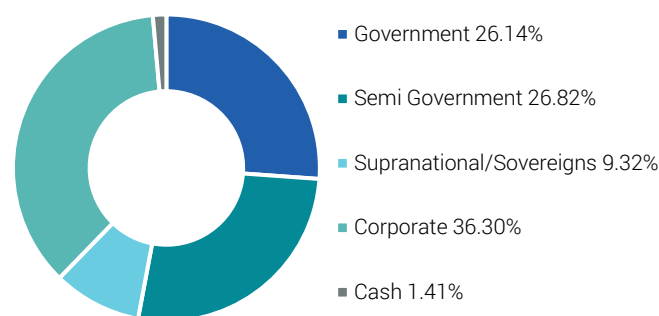
The portfolio remains overweight spread products, primarily semi-government and supranational agency securities. It is also overweight investment-grade credit, including senior financials, residential mortgage-backed securities and high-grade corporates, with maturities extending out to five years. Credit spreads tightened modestly during the month, while semi-government spreads remained resilient amid relatively low levels of supply. These positive contributions helped to partially offset the underperformance from the portfolio's duration positioning.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.16	4.70	0.47
Corporate Spread Duration (yrs)	0.85	0.35	0.50
Total Spread Duration (yrs)	3.65	2.44	1.20
Yield to Maturity (%)	5.51	5.08	0.43
Average Coupon (%)	4.63	3.19	1.44
Weighted-average Credit Rating [#]	AA	AA	-

[#]Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	4.26%
3 Year Tracking Error (p.a.)	0.45%

Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned -0.22% in August. Following a softer inflation reading in June, Australian inflation accelerated more than expected in July, strengthening expectations of a further Reserve Bank rate increase and prompting markets and economists to reassess the interest-rate outlook. Against this backdrop, bond yields finished the month higher. The 3-year government bond yield rose 17 basis points to 4.66%, while the 10-year yield increased 16 basis points to 5.09%, resulting in a slight flattening in the slope of the yield curve. Short-term money market rates also climbed higher, with the 3-month bank bill rate rising 5 basis points to 4.55% and the 6-month bank bill rate increasing 5 basis points to 4.88%. The Australian dollar strengthened against the US dollar ending the month at USD 0.72.

At its August meeting, the Reserve Bank of Australia (RBA) Monetary Policy Board unanimously decided to maintain the cash rate target at 4.35 per cent. The Board reiterated that inflation remains “too high” and reaffirmed its commitment to returning it to target, which will require a moderation in economic activity. Following three cash rate increases since the start of the year, the Board will continue to assess how the economy responds. Economic growth and household spending are expected to slow, while employment growth is likely to moderate and unemployment to rise gradually. Inflation is expected to remain elevated in the near term due to persistent domestic price pressures and higher costs associated with the Middle East conflict, before gradually returning to the 2-3% target range, with the midpoint not expected to be reached until early 2028.

Inflation data released later in the month, subsequent to the RBA Board meeting, showed that Australia’s annual inflation rate eased to 3.5% in July 2026, down from 3.8% in June, but remained above both market expectations of 3.3% and the RBA’s 2–3% target range. It was the softest increase since November 2025, as goods inflation moderated to an eleven-month low of 3.2%, while services inflation also eased to 3.7% from 4.0%. The trimmed mean CPI stood at 3.6% year on year, still the highest since September 2024 and above expectations of 3.5%, while the weighted median CPI rose 3.6%, after a 3.7% rise in June. On a monthly basis, the CPI rose 1.0%, marking the first monthly increase and the fastest pace in four months, surpassing expectations of a 0.8% rise.

Domestic data released during the month continued to indicate moderating economic activity. Australia’s seasonally adjusted unemployment edged up to 4.5% in July, surpassing both market expectations and June’s figure of 4.4%. The latest reading was the same as April’s figure, which was the highest since November 2021. Cotality’s national Home Value Index declined 0.9% month-on-month, marking the fifth consecutive monthly decline. National home values were 3.6% below their March 2026 peak, although they remained 2.7% higher than a year earlier. Property market conditions remain subdued, reflecting elevated interest rates, affordability constraints, tighter lending standards following the introduction of APRA’s

debt-to-income lending limits earlier this year, and the impact of negative gearing and capital gains tax reforms on investor demand. Together, these factors are expected to weigh on housing demand and place further downward pressure on dwelling prices.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
New South Wales Treasury Corporation	AA+
Treasury Corporation of Victoria	AA
South Australian Govt Financial Authority	AA+
Western Australia Treasury Corporation	AAA
International Finance Corporation	AAA
PSP Capital Inc	AAA
Queensland Treasury Corporation	AA+
Athene Global Funding	A+
Export Finance & Insurance Corp	AAA

All of the above portfolio securities are Australian dollar denominated issues and include fixed interest and FRNs.

Market Outlook

Australia appears to be entering a prolonged period of modest growth, gradually easing inflation, slightly higher unemployment and elevated interest rates. The economy continues to be supported by population growth, public infrastructure spending, technology and AI-related investment, and a labour market that remains relatively resilient. However, growth is being constrained by weak productivity, ongoing cost-of-living pressures, elevated household debt and heightened global uncertainty, particularly relating to energy markets and trade tensions. Recent forecasts suggest Australia is likely to avoid a technical recession, although economic growth remains subdued and per-capita growth is weak.

The RBA has maintained a restrictive monetary policy stance as inflation has proved more persistent than anticipated. Following earlier rate increases in 2026, the cash rate remains at 4.35%. At its most recent meeting arguments for a 25-bp hike centred on upside inflation risks, including higher oil prices from the Middle East conflict, greater cost pass-through by firms, stronger AI and data-centre investment, resilient demand, and weak productivity growth. The case for holding rates was supported by evidence that policy was already restrictive, inflation was slightly below forecast, and unemployment was rising. Downside risks included faster labour-market easing, weaker demand, and housing-related drag. Ultimately, policymakers held rates unchanged while reaffirming their readiness to act if upside risks to inflation materialise.

Following the RBA’s meeting, inflation data came in hotter than initially expected, strengthening the case for a rate hike.

Further tightening by the RBA would put it in a stronger position to begin cutting rates in H2 2027, should inflation return sustainably to the 2–3% target range, the economy weakens materially or if unemployment rises higher and faster than anticipated.

Inflation remains the key economic challenge. While headline inflation has eased from its peak and has moderated somewhat during 2026, underlying inflation remains above the RBA's 2–3% target range. The labour market remains relatively healthy but has softened. Unemployment is currently around 4.5% and may drift slightly higher as economic growth remains below trend and business hiring becomes more cautious. Nevertheless, unemployment remains low by historical standards, and widespread job losses are not currently expected.

Consumer confidence remains fragile, as cost-of-living pressures, persistent inflation, and geopolitical uncertainty continue to weigh on household sentiment. While lower global energy prices have provided some relief, the unwinding of the temporary fuel excise reduction is expected to place upward pressure on domestic fuel prices, adding to household cost-of-living pressures and slowing the pace of disinflation. As a result, households remain cautious, prioritising essential spending over discretionary purchases. Consumer pessimism also remains unusually elevated relative to the low unemployment rate, while softening housing prices are likely to further constrain consumption by reducing the household wealth effect.

Business conditions remain mixed. Firms supported by infrastructure, AI, data centres, the energy transition and technology investment remain confident. In contrast, many small and medium-sized businesses continue to face pressure from higher borrowing costs, weaker consumer demand and rising operating costs. While investment intentions remain positive overall, businesses are increasingly focused on productivity gains and cost management.

The economy is not currently showing signs of a severe downturn, but both consumer and business sentiment remain cautious. Key risks include a sharper slowdown in China, renewed energy price shocks, escalating global trade tensions, weaker productivity growth and increased volatility stemming from geopolitical conflicts. Improvements in productivity and business investment remain critical to strengthening the medium-term outlook.

China, Australia's largest export market and the dominant buyer of iron ore, coal and other commodities, is expected to record moderate but slowing growth, with the OECD and IMF forecasting GDP growth of around 4.5% in 2026 and the low-4% range in 2027, down from approximately 5% in 2025. While government stimulus, infrastructure investment, high-tech manufacturing and exports continue to support activity, the economy faces persistent structural challenges, including a prolonged property downturn, weak household consumption, industrial overcapacity and deflationary pressures. For Australia, weaker Chinese property activity could reduce demand for commodity exports and weigh on mining

investment, although infrastructure spending and continued strength in manufacturing should provide some ongoing support.

The U.S. economy is expected to remain relatively resilient, with the OECD forecasting GDP growth of around 2.0% in 2026 and 1.8% in 2027. Growth continues to be supported by consumer spending, AI-related investment and productivity gains, although persistent inflation, fiscal pressures and trade policy uncertainty are expected to moderate activity. For Australia, continued U.S. growth should support global demand and financial market stability. However, uncertainty surrounding tariffs, trade policy and government finances could increase market volatility, tighten global financial conditions and weigh on global trade. Elevated U.S. Treasury yields, driven by fiscal concerns, inflation risks and higher borrowing requirements, could further tighten global financial conditions and place upward pressure on borrowing costs and bond yields globally. At the same time ongoing U.S. investment in technology, AI, defence and energy presents opportunities for Australian exporters and investors.

Fund Objective

The Fund aims to outperform the Bloomberg AusBond Composite 0+YR Index over any three-year rolling period, before fees, expenses and taxes.

Key Facts	
Responsible Entity Yarra Funds Management Limited	Management Cost 0.30% p.a.
APIR Code TYN0104AU	Buy/Sell Spread +0.05% / -0.05%
Portfolio Manager Darren Langer	Distribution Frequency Quarterly
Fund Size A\$570 mn as at 31 August 2026	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment A\$10,000	

Applications and contacts

Investment into the Yarra Australian Bond Fund can be made by Australian resident investors only.

Website www.yarracm.com

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

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